

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF TEXAS
SAN ANGELO DIVISION

U.S. BANKRUPTCY COURT
NORTHERN DISTRICT OF TEXAS
ENTERED
TAWANA C. MARSHALL, CLERK
THE DATE OF ENTRY IS
ON THE COURT'S DOCKET

IN RE: §
§
JOHN C. BAUM AND § CASE NO. 03-60408-RLJ-7
LINDA D. BAUM, §
§
DEBTORS §

MEMORANDUM OPINION AND ORDER

Coleman National Bank, a creditor, and Harvey Morton, the Trustee, object to Debtors', John and Linda Baum's, claim of exemption to five hundred shares of MetLife, Inc. stock. The Baums contend that their prior interest in a life insurance policy issued by Metropolitan Life Insurance Company ("Metropolitan Life") was involuntarily converted to the five hundred shares of stock ownership in MetLife, Inc. ("MetLife"), under a so-called "demutualization" process by which Metropolitan Life converted from a mutual life insurance company to a stock life insurance company and became a wholly owned subsidiary of MetLife.

The Baums elected to claim exemptions allowed under Texas state law. The Texas Insurance Code was amended by the Texas legislature effective June 1, 2003. Like the former provisions, section 1108.051 of the Texas Insurance Code exempts the cash value and proceeds of a life insurance policy. The Baums argue that since their prior interest in the life insurance policy was exempt under Texas law, the shares of the stock resulting from the demutualization should also be exempt.

The Texas Civil Statutes, notably section 42.002 of the Texas Property Code, set forth

several types of property that may be exempt. Under certain circumstances, property that has been substituted for the specific items set forth in the statute may be exempt because of the relationship between the substituted property and the otherwise exempt property. *See In re Swift*, 128 F.3d 792, 802 (5th Cir. 1997) (holding that when, “a retirement account that should have been exempt is lost, the cause of action to replace that account is exempt so that the injured party can be placed in a position that is as near as possible to his original or intended position.”); *In re Osborn*, 176 B.R. 217, 219-20 (Bankr. E.D. Okla. 1994) (holding that Texas exemptions included cause of action against attorney for acts pertaining to loss of client’s homestead); *Sorenson v. City Nat’l Bank*, 49 S.W.2d 718, 721 (Tex. Comm. App. 1932) (holding that proceeds from an insurance settlement over destroyed furniture was exempt); *Willis v. Schoelman*, 206 S.W.2d 283, 284-85 (Tex. Civ. App.—Galveston 1947, no writ) (holding that an exemption for one “carriage” included the proceeds paid on an insurance policy after an automobile was damaged).

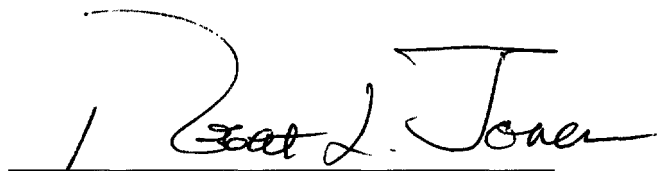
Perhaps more analogous to the case at hand are those cases that have held that insurance proceeds from the destruction of homestead property are entitled to homestead protection. *See Lee v. Honea*, 349 S.W.2d 110 (Tex. Civ. App.—Fort Worth 1961, writ ref’d n.r.e.); *Johnson v. Hall*, 163 S.W. 399 (Tex. Civ. App.—Texarkana 1913, no writ). However, insurance proceeds remain exempt for only a sufficient amount of time to allow the insured to replace the destroyed property. One court has held that the exemption continues for a “reasonable time.” *New Orleans Ins. Ass’n v. Jameson*, 25 S.W. 307 (Tex. Civ. App.—Houston 1894, no writ). Another court has fixed the time at six months from the date on which the claimant has the right to demand payment from the insurance company. *Walter Connally & Co. v. Hopkins*, 195 S.W. 656 (Tex. Civ.

App.—Texarkana 1917, writ granted), *aff'd*, 221 S.W. 1082 (Tex. Comm'n App. 1920).

Even assuming, *arguendo*, that the five hundred shares of stock were entitled to exempt status as proceeds of or as a substitute for the former life insurance policy, the exempt status cannot last forever. The evidence reflects that the demutualization and conversion to the five hundred shares of common stock occurred in April of 2000 and April of 2001. *See* Debtors' Exs. 3, 4, and 5.¹ They have never reinvested the stock into another life insurance policy. The Baums filed for Chapter 11 bankruptcy on November 11, 2003, and their case was converted to Chapter 7 on December 15, 2003. The stock lost any possible protection as exempt property long before the Baums filed their petition with this court. It is, therefore,

ORDERED that John and Linda Baum's claim of exemption to the five hundred shares of MetLife stock is denied.

SIGNED April 12, 2004.



ROBERT L. JONES
UNITED STATES BANKRUPTCY JUDGE

¹Debtors' Exhibits 3, 4, and 5 are the only evidence before the court on this issue. They consist of a single page from each of the MetLife, Inc. 2000 Annual Report (Ex. 3) and two brochures issued by MetLife (one sent to John Baum and one to Linda Baum) (Exs. 4 and 5). The 2000 Annual Report excerpt states that the demutualization occurred on April 7, 2000. Ex. 3. The excerpted pages from the brochures provide notices regarding the termination of the MetLife Policyholder Trust and the issuance "to you" of MetLife, Inc. common stock. Exs. 4 and 5. This apparently occurred "beginning on April 7, 2001." *Id.* Other than Mr. Baum's testimony that he and his wife previously owned an interest in an insurance policy and that such interest is now represented by the five hundred shares of MetLife stock, there is no direct evidence concerning the nature or type of the insurance policy held by the Baums or the value of the policy. No testimony was offered that provides a real understanding of the excerpted materials. These materials obviously address several complex transactions involving Metropolitan Life and MetLife. The court's interpretation of how these transactions specifically affected the Baums is somewhat speculative. The five hundred shares of stock is not within the allowed exceptions under Texas law. The dearth of evidence concerning the transformation of the Baums' interest in an insurance policy to their ownership of the stock is sufficient itself to deny the exemption.